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## NOTES AND MEMORANDA

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### THE GENESIS OF MODERN CAPITALISM<sup>1</sup>

PROFESSOR SOMBART has given us a substantially new book under the guise of a second edition. Only one-tenth of the material of the first edition reappears in this new version of the work, and it is extremely difficult to find this tenth. Published during the war, it failed to receive attention outside of Germany; yet it deserves the careful consideration of economists and historians. Plan, scope, and method have been completely changed: the excessive schematization that marred the previous work has given place to an historical realism that will make the book useful and stimulating to those who disagree with its outstanding positions, and the careful separation of explanation of the categories used from the historical illustrations makes it much easier to visualize the author's meaning.

Professor Sombart still stands somewhat outside of the main current of academic thought, in Germany no less than in other countries. The consciousness of this measure of isolation obtrudes itself at times, both in his appraisals of the work of other economic historians and in his general remarks about historical literature. One has the sense of a struggle to accomplish something entirely new, and of hopes to impart a new direction to the current of literature on economic history. There is somewhat of the conceit of loneliness in many of the passages, but these ambitions and conceits are by no means without foundation. The discontent is a noble discontent, tho not always gracefully expressed: the ambitions are well

1. Sombart, Werner, *Der Moderne Kapitalismus*, Zweite neugearbeitete Auflage. 2 Bände, pp. xxvi, 919; x, 585; ix, 564 (589-1155). Duncker & Humblot, München & Leipzig, 1916-17.

conceived and significant progress is made toward their realization in the present version of the work. The first edition stood outside the main current of thought because it was labored and difficult to understand. This present edition stands somewhat apart because it represents genuine progress in the systematic presentation of economic history. The isolation is that of leadership.

Altho the essential doctrine of the book is still largely unchanged, thus justifying the use of the old title, the ideas become clearer because it is now possible to understand their relationship to the work of other writers, notably Schmoller, List, and Bücher. The influence of Marx is less apparent, and, if one may draw inferences from the separate work *Socialism and the Social Movement*, the direct influence of Marx reached its climax in the first edition of *Modern Capitalism*. Sombart lays great stress on the presence in the Marxian writings of both revolutionary and evolutionary doctrines. He feels that Marx never worked out the concept of evolution that he gave to economic history, so that one is tempted to regard the earlier version of *Modern Capitalism* as an attempt to give full expression to the thought of Marx. That version is somewhat spoiled for the non-socialistic reader by the constant insistence upon the ultimate emergence of a socialistic society. The reception of the book undoubtedly made a deep impression upon its author, and the present work is an attempt to give concrete expression to a concept of economic evolution in terms of actual historical process rather than in bare abstractions built up from Marxian principles. New influences have come to the fore in this attempt, notably Schmoller and List. Schmoller had always been an important factor in Sombart's thought, but in this work Schmoller becomes the dominant influence. It is the Schmoller of the essay on the mercantile system (1883), too, rather than the Schmoller of the *Grundriss*. This is, of course, especially consistent with the close reading of List now evident and the explicit attempt to carry on the doctrinal tendencies found by Sombart in List's *National System*. The new book is thus closely rooted in the literature of the subject: it attempts

new things, but only in the sense of addressing itself to old problems with fresh vigor.

The present work is designed to afford a comprehensive view of the evolution of economic life in Europe as a whole since the great revival of the eleventh century. The earlier period is sketched rapidly, but with genuine insight and commanding power of generalization. The narrative increases in compass after the mid-fifteenth century. The two volumes thus far published carry the development down to the beginning of the nineteenth century, leaving the conclusion to a subsequent volume or volumes. Sombart's book on Germany in the nineteenth century (*Die Deutsche Volkswirtschaft im Neunzehnten Jahrhundert*, 1903) affords some insight into the character of the continuing volumes that may be expected. Originally written soon after the completion of the first edition of *Modern Capitalism*, it was intended to embody the essential principles of that work. But Sombart's thought underwent many changes in the course of study of recent conditions, and it is possible that these departures were the beginning of the project now in process of execution on so large a scale. At all events the books should be read together until the special work on Germany is supplanted by the final volume of the new version of *Modern Capitalism*.

The underlying unity of the economic life of Europe is presented by Sombart with more conviction than has yet been shown by any writer of the first importance, and this feature of the book is one of its most important claims upon our attention. Sombart complains with justice of the unfortunate influence of nationalistic limitations upon the work of Levasseur, Cunningham, and Inama-Sternegg. He feels that these scholars have failed in many instances to distinguish properly between constitutional and economic history, and that they have neglected the genuinely economic phenomena. The history of the towns affords the most striking illustration of the difference in point of view. Sombart wishes also to emancipate economic history entirely from the misleading implications of the designations of periods that have become customary in the treatment of political and constitutional history. He there-

fore suggests a series of terms built around the concept of capitalism: the pre-capitalistic period, (a) domestic economy, (b) craft economy; the early capitalistic period; the dominantly capitalistic period.

The beginnings of the early capitalistic period are assigned in the stricter sense to the mid-thirteenth century, on the ground of the dealings of the Sienese merchants with Papal funds and revenues. Capitalistic modes of trading and capitalistic organization of industry appear in various towns of Italy, Germany, and the Low Countries, but this does not seem to warrant characterization of the period as the first stage in the development of capitalism. The important beginnings of capitalism appear in the latter half of the fifteenth century as the result of the following factors: the discovery of new gold and silver mines in central Europe; the discoveries of America and of the sea route to India; the religious persecutions; the entry of the Germanic peoples into history (*sic*); the completion of the development of the feudal monarchies; the rise of the modern army; advances in industrial technique; perfection of double entry bookkeeping. The formative period of the capitalistic order is presumed to continue until the mid-eighteenth century in England and until the mid-nineteenth century for Europe as a whole.

Sombart is fully justified in the feeling that his term "early capitalistic period" is superior to Schmoller's term, territorial economy, or to Marx's term, the period of manufacture. At the same time, it is not so clear that much is gained as against a series of terms that would be more closely related to political and constitutional history: the medieval period; the early modern period; the modern period. As a basis for the comprehensive treatment of economic history the categories of capitalism are by no means wholly satisfactory. Agrarian problems are not clearly placed. From the social and economic points of view they are at least of coördinate importance with industrial and commercial problems, but in the suggested scheme they are made to appear incidental and unimportant. The colorless designation of the periods in terms of the time sequence alone does not prejudice any of the

problems of interpretation, tho the intervals are distinguished sufficiently for all purposes.

It is, of course, desirable that the presentation of economic history should not be dominated by political and constitutional history, but one must recognize that the relations between these different aspects of social life are so close that there are inevitably genuine correlations among the datings of the major periods. All the lines of demarcation emphasized by Sombart are important in political and constitutional history. Periods of active economic growth and change are inevitably periods of constitutional growth, and political changes are a frequent accompaniment. The emancipation of economic history from undue influence will be accomplished rather by emphasis upon the economic content of the periods than by the use of obtrusively economic terms in characterization. Sombart seems to attribute excessive importance to the naming of the periods.

The stages in the genesis of capitalism are concisely sketched in a notable introductory passage. "I have said," he says, "in one place 'in the beginning is the army' meaning that I see in the modern army the first and most important tool that was formed by this new spirit to accomplish its work. By means of the army was the state created, that first completed manifestation of the new spirit, in which and through which it becomes a power. In order to attain mastery over nature it then seeks to transform technique, and its deep-seated longing for money and power leads it to the deposits of the precious metals which it exploits. These three domains appear as independent fields of activity for the new spirit, it is never lead away from one by its interests in the others" (I, p. 331). . . . "State, technique, and production of the precious metals are the basis of capitalistic development. . . . The state, by its army, creates a great market for capitalism and fills economic life with the spirit of discipline and order. . . . Technique makes production and transport on a large scale, first possible, then necessary. . . . The precious metals influence economic life in many ways: they transform the market in a direction essential to the development of cap-

italism; they heighten the capitalistic spirit by strengthening the desire for gain and perfecting the means of expressing values" (I, p. 332). Then follow in sequence: the development of a wealthy bourgeoisie; changes in consumption; the creation of new productive powers; the capitalistic undertaking. "The demonstration of all this in detail is the aim of the present work" (I, p. 333).

This brief formulation of the thesis of the book brings out clearly a number of essential traits: the emphasis upon the creative power of the state; the conception of capitalism as a spirit or as a manifestation of the will or ingenuity of the people; the attribution of critical importance to the army, to the hoards of precious metals, and to the commercial policies of the state. These ideas are obviously unrelated to the body of classical economic theory and the principles derived from it. The detailed account of all these matters in no wise diminishes the antithesis between Sombart's doctrine and those of the classical school. He is clearly conscious of the difference in view, and it is in this sense that he seems most definitely to continue the work that Schmoller unfortunately began in 1883. Sombart challenges the adequacy of classical thought in the same spirit, tho he recognizes the essential interdependence of history and theory. His position is thus somewhat different from that originally taken by Schmoller, but it is undoubtedly an outgrowth of Schmoller's work. The larger significance of Sombart's book lies in this sharp formulation of the divergent tendencies in economic thought. He leaves us a new dilemma; an antithesis between a liberal system and a restrictive system. These systems of thought must needs involve close interweaving of both theory and history. Sombart presents us with the detail of the interpretation of history based upon the restrictive theory, and indicates the fundamental positions of theory involved. The work of Sombart shows by contrast one element of weakness in the system of liberal thought: it has no systematic body of historical interpretation. The historians who have been in sympathy with such views have paid little attention to the systematic problems that are of fundamental importance in

the new polemic that is so strikingly foreshadowed by Sombart.

In developing the antithesis between his thought and that of the classical school, Sombart recognizes his obligations to the mercantilists. His displays much resentment at the disposition of the classicists to treat them as forerunners of Adam Smith and the physiocrats, contending that they represent distinct systems of thought which have as yet failed of complete expression. He identifies himself with them and says that he will doubtless be classified as a neo-mercantilist. He cites List, Dühring, and Carey as writers who did much to win for mercantilism its true independence. Lest there be any doubt of his meaning we have both a long, balanced antithesis between classical and mercantilistic thought, and a sketch of a mercantilistic system of political economy.

The classic system he deems to be (1) mechanical; (2) individualistic, picturing a society that is dominated by circulation problems — value, price, and exchange; (3) static. The mercantilistic system is (1) organic, dealing with a society conceived as a whole; (2) collectivistic, emphasizing the problem of organized production; (3) dynamic, dealing with a process rather than a condition (II, pp. 915-920). In the detail of this long antithesis there is much that is questionable, especially in regard to the interpretation of the classical economists. Some distinctions and contrasts are certainly overdrawn. But the significant fact is not so much the accuracy of the antithesis as the setting up of this contrast in doctrine. The concluding passage runs as follows. "We will first rightly appreciate the diverse tendencies in economic thought when we accustom ourselves to distinguish two systems of doctrine: the one a mechanistic and static exchange theory, the other an organic and dynamic production theory; one regarding economic life as a condition, the other interpreting economic phenomena in terms of process. . . . The scientific thought originating in the work of the classical school should be called 'Social Economics' to indicate that it has as its subject matter the relations within a stateless society of individuals. One should not on account of this science, or rather this mode of

interpreting social life, forget the other contrasted view — the science of the origins of the wealth of nations, called by List the theory of productive powers. . . . This view may well be designated by the old term 'Political Economy'" (II, p. 920).

There follows a sketch of the essential features of mercantilistic thought under the title "The doctrines of a mercantilistic system of economics." There is first a group of political ideas: the preoccupation with the interest of the state as a whole; a presumption that the power and independence of the state is the supreme concern; recognition that population is the ultimate source of power; the interpretation of the economic life of the state as a functional activity, controlled by the state for its ends. Second is a group of economic ideas: the concept of social productivity, stated by List inadequately and thus in need of further elaboration; the increase of national wealth by the stimulation of maximum production within the country and by advantageous foreign trade; the discovery of capitalism. Both of these last points involve much that is novel. The handling of the problem of foreign trade is quite fresh, but too complex to admit of successful statement in brief compass. The notion of a "discovery" of capitalism is in itself indicative of the novelty of the treatment of that subject. The thesis of the section is that Marx discovered capitalism for science, but that the practical discovery was the work of the mercantilists. They become, therefore, in Sombart's interpretation the driving force behind the whole development of the period, and the formula used by Schmoller in 1883 that mercantilism is state building thus receives a significant extension of meaning in Sombart's present work. The doctrinal positions stated in these passages, too, dominate the whole book, for Sombart shows unusual power in forming the historical material to these patterns. Regardless of one's opinion of the theory, the quality of the artistic accomplishment commands admiration.

The interpretation of economic development in this work is, therefore, diametrically opposed at every important point to the thought that has dominated the social sciences in

France, England, and the United States. Systematic writing in economic history has long been influenced obscurely by doctrinal positions that diverge from the liberal thought: through contacts with socialistic thought, in the work of Bücher and Hobson; through contacts with mercantilism in the case of Schmoller. Unfortunately, the theoretical implications of these interpretations of economic history were not clearly enough revealed adequately to challenge the attention of writers in France, England, and the United States. It would seem that there could no longer be any doubt of the need of meeting the challenge so vigorously made by this commanding work of Sombart. Historians who are in sympathy with the liberal economic doctrine cannot afford to leave the writing of systematic treatises to authors whose premises are fundamentally different. It is impossible to use in elementary instruction generalizations that are not consistent with our own thought, and even if we find realistic methods most useful in monographic work and in general presentation of historical material we must recognize the need of systematic interpretation in class work and in texts. It is the belief of the writer that there is no fundamental position of Sombart that cannot be significantly challenged from the liberal point of view. The development of the period can be presented in terms that are as definitely consistent with the classical theory as Sombart's interpretation is inconsistent with those views. The relative validity of the two points of view must turn primarily upon the quality of the analysis in the domain of pure theory.

It is obviously impossible to present here a detailed criticism of Sombart's interpretation. It must suffice to comment briefly upon the fundamental issue between the two schools of thought. The mercantilistic system presumes that the destiny of the state and the economic welfare of society rests primarily with the rulers and the people; a little more largely with the rulers than with the people, but depending primarily upon these human factors and only secondarily upon environmental factors. The doctrine is an application of the principles of the freedom of the will. These features of the

system of thought appear very clearly in Sombart, both in *Modern Capitalism* and in the *Economic Development of Germany in the Nineteenth Century*. The liberal doctrine is after all a theory of qualified determinism; an analysis of social growth in which the form and structure of social life are presumed to be the result of progressive adaptations to the environment, subject to natural laws and capable of rational explanation because the phenomena are the orderly manifestations of an evolutionary process.

It is difficult to feel that Sombart is consistent in his treatment of this issue. His formal statements are all frankly mercantilistic: the controlling factors are the will of the state and the quality of the people. Capitalism is said to be the invention of the Italians, carried to fuller perfection by the northern races because of the superior endowment of those peoples in connection with the demands of the capitalistic system.<sup>1</sup> Mercantilism creates both the state and the system of modern capitalism. But natural resources are recognized as controlling factors in many features of economic growth, so that one is sorely puzzled by the relative importance of what is "primary" and what is "secondary." The "secondary" factors seem to dominate conditions at crucial points. To one of the opposite faith, these passages are a clear index of the validity of the liberal position. The mercantilist position is weakened, if not destroyed, by the inconsistency between its principles and the detail of its analysis.

The concept of evolution is also involved in this issue between free will and qualified determinism. It is difficult to reconcile the conception of freedom of the will with an evolutionary process: either the will loses its freedom and itself becomes conditioned by circumstance, or there is merely a succession of capricious events that cannot with propriety be termed an evolutionary process. Sombart's work illustrates this difficulty to perfection. It is a presentation of sequences of events, but the series of happenings bears little relationship to any evolutionary process in the sense that the term has come to possess at the hands of the biologists. The driving

1. *Deutsche Volkswirtschaft im 19 Jahrhundert*, pp. 116-127.

force in Sombart's scheme comes from the outside: we think of evolution rather as a process that is an expression of inner necessity.

The compass of the present paper prohibits any adequate discussion of the many items and chapters that are not deeply involved in the larger matters of principle. The sketch of the rise of the towns, most of the discussion of the production and distribution of the precious metals, much of the discussion of craftsmanship, will prove stimulating and useful to all who are concerned with the history of the period. These passages are a permanent contribution to the literature of the subject. The work should, therefore, bring to its author generous recognition from all sides, whether he is regarded as a brilliant advocate of the "true" doctrine, or as one of the most talented antagonists of liberal thought.

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#### INDEX NUMBERS OF FOREIGN EXCHANGE

INTERPRETATION has always lagged far behind the collection of statistical data, altho nothing conduces so much to effective collection as a clear appreciation of the significance of the data to be collected. Recently the knowledge of elementary statistical devices has spread rapidly without a corresponding extension of the more exacting art of interpretation. Hence one finds numerous instances of laborious effort expended upon the elaboration of averages, index numbers, and coefficients, where more careful preliminary consideration of the results would have indicated the futility of applying refined methods to such material or the necessity of employing a quite different procedure. Moreover, so uncritical are most readers in their acceptance of statistics, that figures well-nigh meaningless, or misleading if made the